

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204
October 11, 2002**

EXECUTIVE SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Fred Biesecker, Acting Executive Director
Forrest Bowman, Jr., Attorney-at-Law
Mary Beth Braitman, Ice Miller
Ed Gohmann, PERF Legal Counsel
Bart Herriman, Governor's Office
Martin J. Klaper, Ice Miller

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(6) and IC 5-14-1.5-6.1(b)(10).

REGULAR SESSION

Trustees Present

Jonathan Birge, Chair
Richard Doermer, Vice Chair
Garland E. Ferrell
Connie R. Thurman
Nancy Turner

Others Present

Elaine Beaty, McCready & Keene, Inc.
Mary Beth Braitman, Ice Miller
Bart Herriman, Executive Assistant to the Governor
Martin J. Klaper, Ice Miller
Stephanie Rhinesmith, Special Liaison to the Governor for Public Finance
Eric Swank, Ice Miller
Doug Todd, McCready & Keene, Inc.
Fred Biesecker, Acting Executive Director
Caroline Drum Bradley, PERF Internal Auditor
Diann Clift, PERF MIS Director
Joe Duncan, PERF Investment Officer
Patricia Gerrick, PERF Chief Investment Officer

Ed Gohmann, PERF Legal Counsel
William Hutchinson, PERF
Patrick Lane, PERF Communications Director
Tim Legesse, Investments Officer
Doug Mills, PERF Chief Financial Officer
Natalia Olenina, PERF Investments Intern
Tom Parker, 1977 Fund Director
Ken Stoughton, PERF HR Director
Lynda Duncan, Minute Writer

The Board convened in regular session. A quorum being present, the meeting was called to order.

1. APPROVAL OF MINUTES.

MOTION duly made and carried to approve the minutes of the September 13, 2002 Board Meeting. Two of the Board members abstained from voting because they were not members of the Board of Trustees at the time of that meeting.

Proposed by: Nancy Turner
Seconded by: Richard Doermer
Votes: 3 for, 0 against, 2 abstentions

MOTION duly made and carried to approve the minutes of the September 28, 2002 Board Meeting.

Proposed by: Richard Doermer
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions

2. DISCLOSURES.

Mr. Doermer stated that he owned Bank One stock, details of which are on file in the office of the Executive Director.

3. ADMINISTRATIVE.

a. Approval of Acting Executive Director.

MOTION duly made and carried to approve Mr. Fred R. Biesecker as the Acting Executive Director.

Proposed by: Garland Ferrell
Seconded by: Connie Thurman
Votes: 5 for, 0 against, 0 abstentions

b. Approval to Hire Acting Chief Benefits Officer (CBO).

MOTION duly made and carried to authorize Mr. Fred R. Biesecker to hire an Acting Chief Benefits Officer (CBO).

Proposed by: Nancy Turner
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions

c. Committee Appointments.

- (i) Board Committees. It was agreed that the composition of the Board Committees would be as follows:

<u>Investments Committee</u>	Richard Doermer (Chair) Jonathan Birge Garland Ferrell
<u>Benefits Administration Committee</u>	Nancy Turner (Chair) Connie Thurman
<u>Audit and Budget Committee</u>	Garland Ferrell (Chair) Jonathan Birge

- (ii) Search Committee for Executive Director.

MOTION duly made and carried to approve the formation of a Search Committee consisting of Jonathan Birge, Richard Doermer, and three other members to be nominated by the Acting Executive Director and the Governor's Office for the purpose of selecting a permanent Executive Director.

Proposed by: Garland Ferrell
Seconded by: Richard Doermer
Votes: 5 for, 0 against, 0 abstentions

d. Line-of-Duty Death Determinations. Mr. Parker advised that there were two categories of line-of-duty death determinations.

- State employee death benefit (\$50,000). Claimants complete a form packet that is sent to PERF for presentation to the Board of Trustees for their consideration.
- Public Safety Officers' death benefit (\$150,000). The claim packet is presented to the 1977 Fund Advisory Committee, which provides the liaison for the membership of that Fund. The Advisory Committee reviews the claim packet and makes a recommendation to the Board of Trustees.

- (i) Mary Henderson, former Indiana Department of Transportation (INDOT) employee. In their deliberations it was noted that the term "dies in the line

of duty” refers to a death that occurs as a direct result of personal injury or illness resulting from a state employee’s performance of the duties of the employee’s job. Mr. Ferrell asked for the source of funding of the benefit. Mr. Parker advised that there is a statutory requirement for the State to establish and operate a death benefit program. Mr. Gohmann noted that the program had been funded by a bail bond fee. However, the balance in this fund had become so high, that the funding mechanism had been allowed to expire. Mr. Todd noted assets had been significantly in excess of liabilities, and so for that reason the funding had been shut off. Mr. Gohmann noted that there was a mechanism within the law establishing this fund to cover situations where the balance fell below the amount to be paid out. It was noted that this is a separately established state fund. Mr. Doermer asked if PERF had a procedure to pursue recovery in the case where the death had occurred due to negligence by a third party. Mr. Gohmann noted that this situation had not arisen because PERF pays the money to the survivors of the family and it would be the prerogative of the family to pursue any additional claim deemed appropriate.

MOTION duly made and carried to approve a line-of-duty death determination in the matter of Mary R. Henderson, former Indiana Department of Transportation employee.

Proposed by: Connie Thurman
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

(ii) Gary R. Petty, Former Indiana Department of Transportation Employee.

MOTION duly made and carried to approve a line-of-duty death determination in the matter of Gary R. Petty, former Indiana Department of Transportation Employee.

Proposed by: Nancy Turner
Seconded by: Garland Ferrell
Votes: 5 for, 0 against, 0 abstentions

(iii) Thomas A. Minor, Sr., Indianapolis Police Department. It was noted that Mr. Minor had died in 1998 but the Fund did not receive his claim until August 2002. The benefit had been recommended to be approved by the 1977 Advisory Committee. Mr. Parker noted that the statutory language relating to different funds is generally fixed to the date of death. The statute had been amended on July 1, 2002 and effectively tightened the rules governing the line-of-duty death definition. Mr. Minor had died in 1998, and was therefore covered by the 1998 provision in the statutory definition in force at the time of his death. Mr. Parker provided some historical information on how prior claims of this nature had been dealt with where individuals had died on duty due to a heart attack. He gave examples of similar claims that had been recommended by the 1977 Advisory Committee and had been approved by the PERF Board. The

1977 Advisory Committee had recommended approval of this claim in order to be consistent with the prior claims of this nature that had been approved, but only for deaths occurring in a window between January 1, 1998 and June 30, 2002 which was the last day before the statute was amended. Ms. Turner noted that under the new tighter definitions of the statute, this case might not be recommended for approval. Mr. Birge noted his concern about the length of time it had taken to file this case and asked Mr. Parker to pass on his concern to the members of the Advisory Committee. Mr. Gohmann noted that there was no explicit application deadline. Mr. Parker agreed to pass this on to the 1977 Fund Advisory Committee at their next meeting on October 22, 2002 and would also mention this at the Pension Secretary Seminar to be held on October 28, 2002. Mr. Garland noted that when the statute had been written, this had implied a real accidental death. Mr. Gohmann noted that the Advisory Committee had requested a change in the law to ensure that this was a true line-of-duty benefit. Mr. Parker concurred with the recommendation of the members of the 1977 Advisory Committee to approve this determination in order to be consistent within this window period between statute in effect, January 1, 1998 and June 30, 2002.

MOTION duly made and carried to approve a line-of-duty death determination in the matter of Thomas A. Minor, Sr. former officer of the Indianapolis Police Department.

Proposed by: Connie Thurman
Seconded by: Richard Doerner
Votes: 5 for, 0 against, 0 abstentions

- e. PERF Employment Policies. Mr. Martin Klaper, Ice Miller, had prepared revised employment policies and a revised personnel handbook, and copies had been provided to the Board members.
- He noted that the application process provided the means by which an employer can collect base data and that without an application form, collecting data for the verification process is not very efficacious.
 - Additionally, all people seeking employment with PERF would be thoroughly screened. This process would start with a thorough application form based on the existing State application but requiring additional information normally expected for people working in financial institutions, etc. In conjunction with this process, a process was recommended to validate the information received. Due to the set-up of the PERF computer system, all employees, irrespective of level, have access to the same data. To protect this data from possible misuse requires a variety of different verifications and levels of scrutiny for applicants and employees. A complete verification of the person's background will be carried out (fingerprinting, Social Security number review, criminal background checks, reference checks, credit checks, etc.). If the person does not consent to these checks, they will not be considered for employment with PERF. Any candidates

will be made aware of PERF's employment policy concerning background checks.

- The State Police will be asked to carry out "level three" checks on potential PERF employees due to the level of information access and funds involved. An independent check on a county-by-county basis will supplement information available through national and State of Indiana database sources, which sometimes does not include all relevant information on incidents of arrests, convictions, etc. To facilitate this process, applicants will be asked to provide details of their places of residence and work during the previous 7 – 10 years. This will be augmented with credit checks and verification of Social Security numbers and these measures should provide a chronological information about the person.
- In conjunction, a reference checking procedure is also being proposed for the pool of finalists, as part of any search for new employees. Mr. Klaper noted that resume falsification or exaggeration is not an uncommon event. The only way to get real facts is through a reference check as well as verification of raw data.
- It was recommended that these procedures should be applied retroactively in many parts to current employees. People who are currently employed at PERF have already demonstrated if they have the prerequisite abilities to perform the job for which they were hired. Therefore reference checking would not be required. However, it was important to ascertain that none had a particular problem that would disqualify them from employment, and therefore it was recommended to maintain the requirement for background information and criminal history checks. All current employees will be asked to complete an application form in order to have a record on file.
- The Board then reviewed the proposed revisions to the employment policies. It was noted that some members of PERF are represented by the Unity Team and their terms and conditions of employment are governed by collective bargaining. The policies being revised would be for non-represented employees.
- Mr. Klaper noted that when the Fund had been a merit agency when it was part of the State of Indiana and employees were under state service. When the Fund became a body politic, and the initial policies were adopted for this agency, the commitment was not clearly stated that those people who were then working at the Fund would retain the same employment rights. Going forward, people working for PERF, who were not employed as of July 1, 2000, or who are not under the provisions of a collective bargaining agreement, are governed by the employment-at-will policies set out in the new document. The policies also include some parameters of behavior in the workplace that are reflective of working conditions existing throughout the State of Indiana.
- Mr. Doermer noted the recommendation to employ an outside firm to do some of the verifications and asked if any were Indianapolis-based. He was advised that the most nationally renowned firm for this kind of task was headquartered in Crawfordsville, Indiana. The State Police will assist in doing much of the actual

verification of names, etc., but will not carry out reference checks. Mr. Ferrell asked how much this would cost. Mr. Klaper advised that the expense is directly related to the number of references to be checked, but estimated that \$350 to \$500 would provide a good reference check. The amount of checks to be done and the level will be directly proportional to the sophistication of the person's prior experience. Mr. Doerner noted that it was difficult to project an annual cost for this activity, but it was important to get started. Reference checks would only be required for new members.

- Mr. Ferrell asked if the employment policies would be easy to update. He was advised that the handbook would be subject to on-going review.

MOTION duly made and carried to approve the employment policies and procedures as provided.

Proposed by: Garland Ferrell
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

4. LEGAL ISSUES.

- Change in Administrative Rules. Copies of the proposed amendment to the administrative rules and the minutes of the hearing had been provided. Changes were proposed in response to federal legislation as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) and in response to some changes in State Law arising from the last session of the General Assembly. This expands the definition of eligible rollover distributions, made either from or to the Fund. The major change is that certain non-taxable amounts will be considered as eligible rollover distributions. Two definitions have been changed to conform to federal law. This involves a change in the definition of eligible rollover distribution and the definition of eligible retirement plans. It provides members with a broader choice of destinations for their money going out of the Fund and when rolling over money into the Fund for the purchase of permissive service credit.
- Also tracking a change in federal law, the annual compensation limit has been raised from \$150,000 to \$200,000.
- Changes in state law also define the type of rollovers that may come into the Fund for the purchase of service credit. There is also a rule that would permit PERF's members to take trustee-to-trustee direct transfers to bring money into PERF to buy permissive service credit, (e.g. military service credit).
- Rule-making Process. Due process had been followed with the publication of a notice of intent and the proposed rule changes were published. A public hearing was held at which no comments were received.

MOTION duly made and carried to adopt the new rules and to forward them for approval to the Attorney General and the to the Governor's Office for final approval.

Proposed by: Richard Doermer

Seconded by: Nancy Turner

Votes: 5 for, 0 against, 0 abstentions

5. **BENEFITS.** Mr. Mills provided information on service performance levels, updated through September 2002, as follows:

- **New Member Records.** Mr. Mills reported good progress in this area. A year ago, there were some significant backlogs. Contributions were being received from new members for whom data had not yet been entered into the system. This involved setting up temporary accounts. This backlog has been reduced significantly to one or two weeks.
- **Retirement Processing.** Information was provided for the previous five months. Approximately 500 retirement applications are received each month. PERF is not keeping up with the number of new applications being received, and the number of members that have applied for a benefit, but have not yet received a check, has increased. This deterioration was attributed to the implementation in May of a new computer system (SIRIS), with resultant staff learning curves; a high number of new applications coming in during the Summer, and staff shortages in the benefits area. The headcount was 16 in the benefits department at the end of September. The budget was for 23 positions.
 - ❑ Mr. Ferrell asked if PERF was notifying units about this lag in processing applications. Mr. Lane noted that he had talked to the benefits counseling staff who were now dedicating part of their staff to do preliminary benefits calculations and a portion of their staff to address the backlogs. He noted that they had not formally communicated to the employers the length of time that it was taking to process retirements. He considered that the employers were aware of PERF's difficulties through feedback from their respective employees. PERF continued to work closely with the Employer Advisory Group, where areas of concern were being addressed.
 - ❑ Mr. Birge expressed a hope that with the implementation of the new employment application policies, that these positions could start to be filled and the situation should improve rapidly. Putting in place an Acting Chief Benefits Officer will further enhance this. Mr. Mills noted that a significant goal in the budget had been to be able to pay 85% benefit to a retiree within a month following the member's last payroll check. He noted that there had been some issues that had prevented implementation of this process. Mr. Birge noted that the Teachers' Retirement Fund was already implementing the interim 85% pension check payment and this continued to be one of PERF's high priorities. Mr. Mills noted that it was taking from 90 to 120 days to issue the first retirement check.
- **Refund Processing.** Refunds are paid out to members that leave service and request a refund of their ASA balances. A year ago, it was taking several months for people to

get their refund checks and many complaints were received. PERF had devoted extra resources, employing temporary employees, to clean up the backlog and members are now receiving their checks in a timely fashion. Mr. Mills noted that the process of calculating a refund was much less complicated than that of processing retirement applications.

6. 1977 FUND. Mr. Parker provided a report on the 1977 Fund Advisory Committee meeting held on September 19, 2002.
 - Unanimous approval of a line-of-duty death determination.
 - Possible Issues to be raised at Pension Management Oversight Commission (PMOC) Level.
 - Review of changes proposed to the Benefits provisions of the 1977 Fund in terms of basing the benefit on a three year salary average rather than a first-class Salary that would result in a higher contribution level for the plan both on the employer and employee side. Data is being collected for salaries in different units and PERF's actuary will prepare relevant fiscal studies.
 - Proposal to increase the maximum benefit payable from the fund from 74% to 80% of salary base. Additional research is being carried out on this feasibility of this proposal.
 - Presumptive Conditions. There was a proposal to add this to the benefits provision of the 1977 Fund. It was considered that this would be better discussed in the forum of a workshop that would bring together all entities concerned.
 - Investments Update. An update of PERF's investment results was provided.
 - Discussion and Wrap-up of the Deferred Retirement Option Program (DROP) Seminar. Several seminars on this new option had been presented to Fund members in various locations of Indiana. The Firefighters Union and Fraternal Order of Police had expressed their appreciation to PERF for this initiative.
 - The 1977 Fund Membership Handbook (revised edition) is in the process of being finalized.
 - The next meeting will be held on October 22, 2002.
7. INVESTMENTS. Ms. Gerrick provided a summary of the preliminary performance reports for the quarter ended September 30, 2002. A full report will be provided at the November meeting. The summary included details of manager's preliminary performances in comparison to established benchmarks.
 - Projects in Process.
 - ❑ Global Custody Search. Seven responses had been received to the Request for Proposal. An Investment Committee meeting had been scheduled on October 16,

2002 to review the responses and select finalists. The finalists will then undergo on-site due diligence. This is scheduled to be done during the week commencing October 21.

- ❑ Global Equity Search. Some on-site due diligence has been completed and it is anticipated that a recommendation will be made to the PERF Board at the December meeting.
- ❑ Custodial Bank Function. Ms. Gerrick, at the request of Mr. Doermer, summarized the custodial function. The custodial bank holds all of the assets and tracks the assets on PERF's books. When external firms hired by PERF execute trades, the custodial bank is responsible for keeping a record of those trades (amounts of dividends received, interest, payments, etc.). The custodial bank also tracks whether proxies have been voted. In essence, the custodial bank is the source of all information with regard to PERF's assets. The search was initiated because expert evaluations indicated that PERF did not use its custodian in the same way as other plans of the same size and complexity, and the technology associated with the administration of PERF's plan was below industry standard. Therefore the Board approved the issuance of a RFP to review alternative custodial services.
- ❑ ACCOUNTING/FINANCIAL. Mr. Mills noted that figures provided were for the first three months of Fiscal Year (FY) 03. This reporting had just started to be done on a department-by-department basis.
- Headcount. The actual headcount at the end of December was 66 versus the budgeted total of 78. Mr. Birge asked if this reflected that PERF had lost employees and had not filled the positions. Mr. Mills noted that there were seven new positions budgeted and five people had resigned or retired.
- Major variances were positive year-to-date and were driven by a few large consulting projects that we have not been completed and for which invoices had not been paid.
 - Actuarial Audit. This should be completed by November 2002. Sample valuations are in the process of being recreated.
 - Asset Liability Study. This will follow-on after completion of the actuarial audit.
 - Navigant Consulting. This is a data clean-up project. The pilot project was started last year involving several of PERF's largest employers. This entails going back and searching for all the data that is missing in the database. One of the major issues when processing retirements was to verify the accuracy of data and completing missing service history, etc. In the past, this had been done at the point of retirement. The new system is designed to enter all the data while the member is still working, throughout their working life, so that when they retire, everything is accurate and the only information to verify would be the final wages before issuing the first retirement check. This will be completed in a year but will not address all of the data quality issues – only missing data.

- There are also some other IT projects under contractual services in miscellaneous expenses. This is primarily for outsourcing of the IT department work, mainly for programming.
- Investment fees account for the largest expenditure in the budget, with year-to-date fees of \$4.7 million.
- In total, expenses are \$6.4 million three months year-to-date compared to the budget of \$7.8 million.
- Mr. Ferrell recommended presenting a comparison for the year total and this would provide a better picture of the situation with respect to the budget.
- Mr. Mills will provide details of investment expenses for custodial fees.
- Cash Flow Update. This provided details of monies collected each month in contributions from members and employers and outgoing money paid in retirement benefits and refunds.
- Contributions are due the first month following the quarter end. For example, employers collect contributions for the April-to-June quarter and these are paid to PERF in July. Most of the finances for the Pension Relief Fund are received from cigarette and alcohol taxes and lottery revenues. Distributions in the last fiscal year were very significant with over \$190 million being paid out to the cities and towns. A distribution of \$48 million was made in June and the same amount will be paid out in September, representing the total for the calendar year.

9. ADJOURNMENT. There being no further business, the meeting was adjourned.

MOTION duly made and carried to adjourn the meeting.

Proposed by: Connie Thurman

Seconded by: Nancy Turner

Votes: 5 for, 0 against, 0 abstentions

10. DATE OF NEXT MEETING. The next meeting of the PERF Board of Trustees will be held on Friday, November 8, 2002.